

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6222

BILL NUMBER: HB 1022

NOTE PREPARED: Dec 29, 2008

BILL AMENDED:

SUBJECT: Teachers' Retirement Fund Cost-of-Living Adjustment.

FIRST AUTHOR: Rep. Avery

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a cost-of-living adjustment (COLA) in 2010 for certain members (or survivors or beneficiaries of members) of the State Teachers' Retirement Fund (TRF).

Effective Date: July 1, 2009.

Explanation of State Expenditures: The amount of the COLA as a percent of the pension portion (excluding annuity) of a member's total benefit (including past postretirement increases), payable after December 31, 2009, will be as follows:

2.0% for members retired before July 2, 2001;

1.0% for members retired after July 1, 2001, and before July 2, 2007.

The increase in the present value of benefits from the COLA provided in this bill totals \$92.7 M for the Pre-1996 Fund and \$5.9 M for the 1996 Fund. This represents the total fiscal impact attributable to the bill and is shown in the second column of Table 1.

Table 1. Increase in Present Value of Future Benefits from COLA.			
	COLA Provided in Bill (2%/1% on 1/1/2010)	Amount Recognized in Valuation (1.5% on 1/1/2010)	Net Increase Over 1.5% Assumption
Pre-1996 Fund	\$92,7000,000	\$92,300,000	\$400,000
1996 Fund	\$5,900,000	\$7,000,000	(\$1,100,000)
Total	\$98,600,000	\$99,300,000	(\$700,000)

The fund affected for the Pre-1996 Fund is the state General Fund. For the 1996 Fund, school corporations contribute a percentage of payroll, currently 7.25%.

The increases in projected benefit payments through FY 2012 are shown in Table 2 and represent the difference between the projected benefit payments with the proposed COLA and the projected benefit with no COLA. This table should be compared with the second column in Table 1, above.

Table 2. Estimated Increase in Projected Benefit Payments				
	FY 2009	FY 2010	FY 2011	FY 2012
Pre-1996 Fund	\$0	\$4,900,000	\$9,800,000	\$9,800,000
1996 Fund	\$0	\$250,000	\$500,000	\$500,000
TOTAL	\$0	\$5,150,000	\$10,300,000	\$10,300,000

Background Information: The June 30, 2008, valuation for TRF included an assumed 1.5% annual compound COLA in accordance with IC 5-10.4-2-4 (b). The third column in Table 1 shows the estimated increase in the present value of future benefits resulting from this 1.5% COLA assumption, and the final column in Table 1 shows the net increase in the present value of future benefits over the assumed 1.5% COLA that would be shown in the June 30, 2008, valuation upon passage of this bill.

[According to IC 5-10.4-2-4 (b), "*The actuarial investigation and the board shall include in the determination of the liability, contribution rate, and appropriation the amount necessary to fully fund any past and estimated future cost of living increases for members of the pre-1996 account and the 1996 account, amortized over thirty (30) years. The actuary shall consult with the budget agency in making this determination.*"]

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Teachers' Retirement Fund.

Local Agencies Affected: School corporations with members in the Teachers' Retirement Fund.

Information Sources: John Dowell, Alliance Benefit Group, actuaries for the Teachers' Retirement Fund, 317-803-7832.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Cost-of-Living Adjustment - An across-the-board increase (or decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Present Value— The present value (sometimes called actuarial present value) of an amount or series of amounts payable or receivable in the future is their current worth after discounting each such amount at an assumed rate of interest and adjusting for the probability of its payment or receipt.

Unfunded Actuarial Liability -The actuarial liability, sometimes called the unfunded liability, of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.